CITY OF ALLENTOWN
2011 BUDGET
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Allentown
City without limits.

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To: Michael D'Amore, Ph.D., President and Members of City Council

From: Ed Pawlowski, Mayor

Date: November 2, 2010

Subject: **2011 City of Allentown Proposed Budget and Program of Services**

In accordance with the provisions of the Home Rule Charter adopted by the voters of the City of Allentown on April 23, 1996, I, Ed Pawlowski, acting in my capacity as Mayor, herewith present to City Council and the residents of the City of Allentown a proposed Budget and Program of Services for the fiscal year 2011. As required by ordinance, I verify the 2006 reserve fund account is on deposit and not impacted by this budget.

Budget Overview

The proposed 2011 Budget is one of extraordinary challenges calling for a strong sense of collective cooperation on the part of all City stakeholders. It includes several important organizational, cost-saving and revenue enhancing initiatives that, with the continued cooperation of City Council and the dedication and hard work of the City's employees, will further enhance our efforts to provide the citizens of Allentown with the most cost-effective and efficient municipal government services possible.

This comes as a result of the austere financial practices the city has implemented over the past five years which have fostered the efficient delivery of essential public services while maximizing the reduction of costs in almost all areas of the budget.

One of the largest and most burdensome costs in the 2011 Budget is the City's contribution towards its employees' various retirement plans; it's Minimal Municipal Obligation (MMO). Five years ago, this amount was \$6.8MM; in 2011 this will be \$14.7MM. This reflects a crippling ***116%*** increase over 5 short years. [1] This amount now accounts for almost 17% of the entire general fund expenses– a number that will continue to grow exponentially if we don't take very serious and immediate corrective actions to stop it.

[1] It is important to note these figures do not include coverage for those employees whose contributions come out of the Water; Sewer and Solid Waste Funds.

The PA Public Employee Retirement Commission (PERC) recently determined the status of our retirement plan(s) to be at Distress Score Level 2. Being classified at this level provides the city with certain tools to address the burden of MMO payments on the general fund and to modify future pension benefits to remediate the source of the problem by utilizing remedies outlined in PA Act 205.[2]

The provisions of Act 205 are a primary set of tools available to the City to deal with the specific Distress Level 2 pension issue. Besides offering various administrative aids, the Act gives the City the ability to increase its Earned Income Tax (EIT), provided all funds raised thru this initiative are dedicated specifically to the payment of the City's MMO. Hence, there is a new line item in the revenue section of this year's budget entitled "Earned Income – ACT 205" which will reflect those funds forecast to be received thru a .004 increase in the city's EIT.

While other municipalities throughout the Lehigh Valley have increased EIT percentages in previous years (i.e. Whitehall increased its EIT last year from 1% to 1.3%), Allentown's EIT has not been increased since its adoption in 1971. With an increase in EIT from 1% to 1.4% Allentown will still be at the low end of most Pennsylvania cities in its EIT percentage. It is also important to note that cumulative effect of this increase on earnings of $50,000 a year is only $5.00 per year since 1971 or in 2011 just .54 cents per day which is less than the cost of a daily paper, a can of soda from a vending machine or a cup of coffee from McDonalds.

EIT Overview: Statewide

Municipality	Total EIT	Municipality	Total EIT
Philadelphia	3.930	McKeesport	1.700
Scranton	3.400	Bellefonte	1.650
Reading	3.200	Greensburg City	1.650
Pittsburgh	3.000	Duquesne City	1.650
Wilkes Barre	3.000	Washington City	1.650
Coatesville	2.500	Quakertown	1.500
Warren City	2.500	Perkasie	1.500
Chester City	2.250	Dublin	1.500
Hermitage City	2.250	Aliquippa	1.500
Sharon City	2.250	Lock Haven	1.500
State College	2.250	Buskill Twsp.	1.45
Hazleton	2.250	Lower Mt. Bethel Twsp.	1.45
New Castle	2.200	Upper Mt. Bethel Twsp.	1.45
Norristown	2.100	Moore Twsp.	1.45
Carbondale	2.100	Beaver Falls	1.500
Williamsport	2.000	Allentown	1.400

[2] See Appendix A: PERC Distress Score Letter, Synopsis of Act 44 & Act 205 outlining special taxing remedies.

Nanticoke	2.000	Johnstown	1.300
Lebanon	1.900	Altoona	1.200
Farrell	1.800	Erie	1.180
Easton	1.750	Lancaster	1.100
Franklin City	1.750		
Hilltown Twsp.	1.750		

Budgetary Impacts

The City of Allentown has always been and will continue to be committed to providing for the financial security of its employees. We have a remarkable cadre of extremely talented and experienced professionals who come to work for our citizens every day. That being said, some things need to be put in perspective: even in these most difficult of financial times, if it were not for this commitment to our employees' financial security, the proposed budget we are presenting would have just about no growth at all and no need for a tax increase. Without the massive year-to-year increase in our MMO payment, this year's budget increase would only be $3.6MM – or just under 4% - all of which goes entirely to personnel costs such as contractual increases in wages ($1.7MM) and overtime ($1.36MM) mostly due to the potential early retirement of up to half of the city's fire department in 2011.

In the 5-year period spanning 2006-2011, the revenues collected by the City – less the projected funds to be collected by the enhanced EIT under Act 205 – have grown a scant .25% - that's ¼ of 1% over the past 5 years while our expenditures over the same period have increased 27% driven entirely by long term contractual obligations agreed to by the prior city administration.

To further put this impact in perspective, it is very important to note that during the time period of 2005-2011, the number of General Fund employees *decreased* from 725 to the 639 proposed for 2011. This reflects a 13% decrease in actual personnel (the lowest staffing level for the city in 30 years) at the same time our personnel costs due to these prior administration agreements have been on the rise.

It does not take an in depth analysis of the 2011 Budget to see how significant a force our pension and personnel expenditure requirements are to our City's financial health. An increase in EIT under the provisions of Act 205 addresses the very heart of these costs; the city's previously committed, ever increasing pension liability. It shares the burden of paying for pension costs equally among those earners who are living in or employed in the city and who are benefiting from city services from, while at the same time not increasing the cost burden for those who are having the hardest time in this difficult economy: senior citizens on fixed incomes and the unemployed. By utilizing this remedy under ACT 205 the city will not need to increase property taxes, thus providing the seventh straight year of no property tax increase for Allentown residents.

Organizational, Cost-Saving and Revenue Enhancing Initiatives

The city has also embarked on a number of organizational and cost saving initiatives as outlined as follows.

EMS: Allentown has one of the finest EMS operations in the Region. In an effort to strengthen and enhance this service and to continue to provide the high level quality of care for the thousands of patients our EMS professionals assist throughout the year, in 2011 EMS will become a separate Bureau, reporting directly to the Managing Director. This will be a revenue-neutral move that will enhance the overall efficiency of an already well run organization. Our EMS Unit is one of the City services that fully pays for itself. It is on track this year to achieve its $3.2MM revenue goal and for 2011, we are projecting its revenue to come in at $3.4MM. The rationale for this change is the result of an independent study performed for the City by the Eastern PA EMS Council which is a Commonwealth sponsored entity having responsibility to provide independent third-party advice and support on EMS operations in our region. The City is especially grateful to Eastern EMS for the $5000 grant it advanced towards the cost of this analysis.

Corporate Partnership Initiative: In an effort to enhance our bottom line, the administration will continue to pursue a program begun this year of aggressively seeking various forms of support from many of the entities that deal with the City. Such support can come as enhanced cost reductions in services or products a certain vendor may already be supplying to the City or in the form of outright contributions to assist the City in meeting the costs of various programs. Our Fire Department and Health Bureau are but two examples of having significant success in these efforts.

Recently, the leadership of the Fire Department negotiated a 7% discount on the cost of individual turnout gear sets for all of our firefighters and a 5% cost-savings on other firefighter apparel. The Department also benefitted this year from several corporate and individual contributions (Air Products; Lehigh Valley Bar Association and Dr. & Mrs. Carmen Pellosie) for the purchase of 2 Mobile Data Terminals. MDT's are state-of-the-art tools for assisting and protecting our firefighters when going into hazardous situations. The cost of each MDT is approximately $10,000 and were it not for these contributions, the Fire Department would not have been able to acquire these essential tools this year due to budgetary restraints.

Our Health Bureau also has a significant track record of success in obtaining materially valuable support – especially from many of the medical providers in our surrounding area – to cover the cost of certain supplies and services necessary to care for some of our City's neediest residents. Many of these services – as essential as they are – would not be able to be covered solely by the City – again due to budgetary restraints.

Also in 2010, the City received $55,000 ($25K from Air Products and $15K from both the Century Fund & PPL) in corporate contributions to help offset the cost of the professional consultant fees required for our 5-Year Financial Plan Task Force Project.

2011 will see a more organized expansion of these efforts across many more of the vendors serving the City and to other entities – both in the private sector and non-profit as well - that have a vested interest in the City's success.

Allentown City Bureau of Audit & Enforcement: Operating on a budget of just under $370,000, the 7 professionals of this unit with assistance as necessary from our Law Department will be responsible for producing more than $5MM of revenue to the City during the course of 2010. Their work is particularly important to the City because they are pursuing revenue that may otherwise go uncollected. The Bureau collects Earned Income; Local Service; and Business Privilege taxes and license fees along with water; sewer and trash fees that are past due and/or in default.

Union Negotiations: The administration has been actively working with its three labor unions to approve concessions designed to reduce costs and save taxpayer dollars. Recently the SEIU, the city's largest employee union overwhelmingly approved a concession package which limits wage increases to 1.5% over the next five years and places all full-time SEIU members into a national healthcare trust sponsored by the union. These concessions will save the city over $9 million dollars through the life of the contract. In addition to the SEIU, the administration has been actively working with the Fraternal Order of Police (FOP) to craft a wage and benefits concession package that will be voted on by members in the near future.

Capital Projects & Expenses

The City has a series of capital projects that it will address in 2011. The selection of these projects is accomplished through the City's Capital Review Committee which studied these in detail and prioritized them according to need, readiness status and availability of matching funds. This budget reflects the initiation of a $6MM capital expense program covering such projects as:

- 15th Street Bridge Replacement
- Refurbishing of City Hall's 50 year old elevators
- 19th Street Theater District Infrastructure Improvements
- Hanover Avenue Safety Improvements
- Infrastructure Improvements in the Area of Sacred Heart Hospital
- Police Radio Upgrades
- Improvements to the East Side Fire Station
- Numerous Street Replacements and Improvements throughout the City

The debt service for these priority projects will be approximately $410k per year for 25 years. These funds will also provide match for other federal and state funds leveraging over $17,650,000 of additional dollars for city infrastructure projects.

The City's Credit Rating

As part of their normal review and evaluation process, both Moody's and S&P affirmed the City's very respectable investment grade credit ratings this past September. Moody's affirmed us at their A-1 level with S&P confirming us at their BBB+ level with a Stable outlook. S&P's comments included: *"S&P's expectation that city management's recent actions designed to return the city to structurally sound budgeting practices will likely have a positive effect on the city's overall financial profile."*

Accomplishments of Special Note for 2010

The Cosmopolitan: a $6MM 4-story elegant restaurant located on North 6th Street, opened in September, bringing the finest of upscale dining to the heart of our downtown.

Sangria: a truly stylish restaurant offering patrons an opportunity for exciting outdoor dining – weather permitting - as well as lots of entertainment and night life, opened at 9th & Hamilton in August. This downtown based business is another outstanding example of the public/private partnerships the City tries to create for any enterprise that is looking to establish in Allentown. Sangria received a PA Redevelopment Assistance Capital Program grant of $350,000 out of a total project cost of about $1.3 million.

809-813 Hamilton Street: mixed-use development. A $400,000 grant from Pennsylvania DCED, in the form of a loan from the city, is assisting the planned restaurant and retail store on the first floor of this project along with four rental-occupied residential units on the second floor. 809 Hamilton Investors, LP are using more than $800,000 in developer/private financing for property acquisition and facade, roof and first floor improvements.

19th Street Theater District: TC Salon-Spa opened at the site of the former Shanty Restaurant in May. The exterior design is in keeping with the streetscape and architecture of the redevelopment plan. Total investment is more than $2MM.

Custom Nonwoven: moved to North Sherman Street and created 50 new jobs.

Public Safety: The City showed continued improvement in the area of public safety. Violent crime in the City of Allentown fell seven percent in 2009. The statistics were released in May as the part of the FBI's Preliminary Annual Uniform Crime Report. This is the fifth straight year of decline for the city. The City also experienced a decline of nearly seven percent in property crimes in 2009 compared to 2008. The federal government announced in October that Allentown will receive more than $2.2 million in COPS funding to pay for ten police officers for the next three years.

Parks & Recreation: Just days ago the City cut the ribbon on the Cedar Creek Park destination playground. It is a dynamic area with the newest technologically-based and age-segregated play equipment that promotes active and creative forms of play. The poured-in-place recycled rubber surfacing allows children in wheelchairs to easily access and participate along with other children. In addition to the new playground, Phase one of the Cedar Creek Parkway renovation project addressed renovations to the Malcolm Gross Memorial Rose Garden, which included introducing new paver stone walkways, art restorations and improvements to the reflective pond walls to stop erosion and improve the overall ecological and environmental health of this popular wedding and photography spot.

Conclusion

While the Budget and Program of Services respectfully presented herein to the citizens of Allentown and submitted to City Council is austere, it definitely meets the needs of the City. It will only be through a concentrated effort by the administration, along with the cooperation of City Council and a shared sense of cooperation on the part of numerous other stakeholders in the City, which will help us to successfully meet the challenges that lie in front of us.

Working with careful and deliberate focus on the future, the administration will continue to initiate new organizational, process and systems changes which will target continued financial improvement, provide new and quality services to our constituents, and enhance the long-standing pride that our great City of Allentown is so well known for. Working towards these goals, Allentown will become even more of a ***"City Without Limits"*** where people desire to live, work, play and invest.

APPENDIX A

- PERC Distress Score Letter
- Synopsis of Act 44
- Sections of Act 205 outlining special taxing remedies

COMMONWEALTH OF PENNSYLVANIA
PUBLIC EMPLOYEE RETIREMENT COMMISSION
P. O. BOX 1429, HARRISBURG, PA 17105-1429

October 18, 2010 RECEIVED

OCT 19 2010

MAYOR'S OFFICE

Mr. Ed Pawlowski, Mayor
City of Allentown [LEH]
435 Hamilton St.
Allentown, PA 18101

Re: Act 205 of 1984
Notice of Revised 2010 Distress Determination

Dear Mr. Pawlowski:

Act 205 of 1984 requires the Public Employee Retirement Commission to make biennial distress determinations for all municipalities. The results of the 2010 distress determination for your municipality are as follows:

TOTAL DISTRESS SCORE: 2

Based on the above distress score, your municipality has been assigned to Level 2 of the Recovery Program for municipal pension plans established by Chapter 6 of Act 205. The Act allows your municipality to continue to utilize the remedies that may have been previously implemented while participating in a higher Recovery Program level.

Enclosed is the applicable election form. Based on your distress score, the municipality has mandatory remedies that must be implemented, if not already implemented. The municipality may also elect any of the voluntary remedies on the election form. The executed election form (PC-204D2) must be submitted to the Commission by October 31, 2010. If the election form is not returned, it will be deemed that no voluntary remedies were elected, and the mandatory remedies were implemented.

If you have any questions concerning this notice, please do not hesitate to contact the Commission's office at (717) 783-6100.

Sincerely,

James L. McAneny
Executive Director

Enclosure

cc: James B. Allen, PMRS

RL100154.doc

Public Employee Retirement Commission September 25, 2009

Synopsis of Act 44 of 2009 (House Bill Number 1828)

Act 44 of 2009 was signed into law by the Governor on September 18, 2009, and makes numerous, significant changes to the Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984). Acknowledging the current economic climate, Act 44 makes available a number of actuarial tools intended to provide short-term fiscal relief to local governments operating public pension plans. The Act also regulates the establishment and operation of Deferred Retirement Option Plans (DROPs), establishes new conduct and disclosure standards for professional service contracts applicable to municipal pension systems, and provides special remedies applicable to the cities of Philadelphia and Pittsburgh.

More specifically, Act 44 amends Act 205 as follows.

Amendments Applicable to All Plans

- Mandates revised amortization schedules applicable to all future unfunded actuarial accrued liabilities incurred by municipal pension plans.

  Effective immediately and included in the 2009 Actuarial Valuation Report (AVR):

  Actuarial Gains/Losses - Increases from 15 to 20 years

  Effective for changes made on or after September 18, 2009, and included in the 2011 AVR:

  Change in Assumptions - Decreases from 20 to 15 years
  State Mandated Benefit Changes - 20 years
  Local Benefit Changes for Active Employees - 10 years
  Local Benefit Changes for Retired Employees - 1 year

- Effective immediately, provides for optional, alternative, expanded asset smoothing methods for determination of the actuarial value of assets. For the two-year valuation period beginning in 2009, allows an expansion of the asset smoothing corridor for recognition of gains and losses from 20% to 30% for all municipalities.

- Adoption of new smoothing techniques or change of current smoothing methods is to be amortized as changes of actuarial assumptions. The use of the smoothing corridor will be amortized as an actuarial gain or loss.

New Act 205 Municipal Pension "Recovery Program"

- Establishes a new municipal distress determination method using the pension plan ratio of assets to liabilities, based upon the most recent actuarial valuation report. The first AVR filed for a newly established plan will not be used in determining the level of distress. Each municipality, as defined by Act 205, will receive a separate distress score based on the aggregate funded ratio of its pension plans.

  (*Remedies available under the recovery program cannot be utilized until a distress determination score is calculated by the Commission in 2010 based upon the 2009 AVR.*)*

Funding Ratio	Score	Distress Level
90% and above	0	None
70% to 89%	1	(I) Minimal
50% to 69%	2	(II) Moderate
Less than 50%	3	(III) Severe

- Distress Level Transition -

  - If a municipality's distress level becomes worse as of a future filing period, the reduced amortization and minimum municipal obligation (MMO) remedy will be extended by the difference between:

    – The period allowed for the previous distress level
    – The period applicable to the new level of distress

  - If a municipality's distress level improves, the reduced amortization and MMO remedy will continue for the duration of the period applicable to the previous distress level determination.

- Each municipality will be required to report the status of its distress remedy elections in its biennial or annual valuation reports.

** An MMO must be calculated pursuant to § 302(c), but a municipality may utilize its best information concerning funding status and expected distress score in the budget process.*

Level I (Minimal Distress)

Voluntary remedies -

- Aggregation of pension funds for administration and investment
- Establishment of total member contribution
- Deviation from municipal contribution limitations
- May pay 75% of the amortization contribution requirement for 2 years
- Increase in the asset smoothing corridor from 20% to 30% for an additional 2 years (total of 4 years)

Level II (Moderate Distress)

Voluntary remedies -

- Establishment of total member contribution
- Deviation from municipal contribution limitations
- Utilization of the special taxing authority under Act 205
- Establishment of a revised benefit plan for newly hired employees
- May pay 75% of the amortization contribution requirements for 4 years
- Increase in the asset smoothing corridor from 20% to 30% for an additional 4 years (total of 6 years)

Mandatory remedies -

- Aggregation of pension funds for administration and investment
- Submission of a plan for administrative improvement

Level III (Severe Distress)

Voluntary remedies -

- Establishment of total member contribution
- Deviation from municipal contribution limitations
- Utilization of the special taxing authority under Act 205
- May pay 75% of the amortization contribution requirements for 6 years
- Increase in the asset smoothing corridor from 20% to 30% for an additional 4 years (total of 6 years)

Mandatory remedies -

- Aggregation of pension funds for administration and investment
- Establishment of a revised benefit plan for newly hired employees
- Submission of a plan for administrative improvement

Cities of the First Class (City of Philadelphia)

- Exempts the City of Philadelphia from the mandatory provisions of the new Act 205 recovery program until January 1, 2016.

- Permits, but does not require, the City of Philadelphia to reamortize all of the unfunded actuarial accrued liabilities in the City's pension plans over a 30-year period using level-dollar amortization payments.

- Over a multi-year period, permits the City of Philadelphia to defer payment of a portion of the City's Minimum Municipal Obligation (MMO) and mandates a repayment schedule applicable to any amounts deferred.

  - For the fiscal year ending June 30, 2010, allows the deferral of an amount not to exceed $155,000,000

  - For the fiscal year ending June 30, 2011, allows the deferral of an amount not to exceed $80,000,000

- Permits the City of Philadelphia to temporarily impose a local sales and use tax of 1%, with any moneys received from the sales and use tax required to be applied toward payment of the City's MMO and repayment of amounts deferred with interest.

- Requires the City of Philadelphia to comply with a fixed repayment schedule, with failure to comply resulting in the withholding of certain state grants, loans and entitlements in an amount equal to the deferral amount not repaid.

Library References

Municipal Corporations ⚷220(9).
WESTLAW Topic No. 268.
C.J.S. Municipal Corporations § 727.

§ 895.606. Recovery program level III

(a) Optional remedies.—Any municipally to which level III of the recovery program applies may utilize the following remedies:

(1) The establishment of total member contributions pursuant to section 607(c).[1]

(2) The deviation from municipal contribution limitations pursuant to section 607(d).

(3) The special municipal taxing authority pursuant to section 607(f).

(4) The delayed implementation of funding standard over ten years pursuant to section 607(g) or the delayed implementation of funding standard over 15 years with 40-year amortization pursuant to section 607(h).

(5) Supplemental State assistance pursuant to section 607(j).

(b) Mandatory remedies.—Any municipality to which level III of the recovery program applies shall utilize the following remedies:

(1) The aggregation of trust funds pursuant to section 607(b).

(2) The establishment of a revised benefit plan for newly hired municipal employees pursuant to section 607(e). The revised benefit plan shall have a normal cost which is less than the normal cost of the benefit plan applicable to current municipal employees as reported in the most recent prior actuarial valuation report for the pension plan. In making this determination, the normal cost for the revised benefit plan shall be calculated by applying the revised benefit plan to the current active membership demographics.

(3) The preparation, submission and implementation of a plan for improvement of the administration of the pension plan or plans pursuant to section 607(i).

1984, Dec. 18, P.L. 1005, No. 205, § 606, imd. effective.

[1] 53 P.S. § 895.607.

Library References

Municipal Corporations ⚷220(9).
WESTLAW Topic No. 268.
C.J.S. Municipal Corporations § 727.

§ 895.607. Remedies applicable to various recovery program levels

(a) Generally.—Notwithstanding any provision of law, municipal charter, municipal ordinance, municipal resolution, or pension plan agreement, document or instrument to the contrary, the remedies specified in this section shall be available to the applicable municipalities.

(b) Aggregation of trust funds.—If the municipality has established and maintained more than one pension plan for its employees and there are pension funds associated with those pension plans, the municipality may aggregate the assets to the credit of the various pension funds into a single pension trust fund. Subsequent to the aggregation, the pension trust fund shall be the funding mechanism for all pension plans connected with the aggregation.

(1) Each pension plan subject to the aggregation shall have an undivided participation in the assets of the combined pension trust fund. For accounting purposes, the value of the participation by each plan shall be calculated annually. The value for the initial year following aggregation shall be that portion of the total value of the pension trust fund which bears the same relationship that the value of the assets of the pension plan, as of the date of the aggregation plus the contributions received by the pension trust fund with respect to that pension plan since the date of aggregation and reduced by the amount of retirement annuities and benefits paid from the pension trust fund for annuitants and benefit recipients of that pension plan since the date of aggregation, bears to the total value of all assets transferred to the pension trust fund as of the date of aggregation plus the total contributions received by the pension trust fund since the date of aggregation and reduced by the total amount of retirement annuities and benefits paid for all annuitants and benefit recipients since the date of aggregation. The value of the participation for each year subsequent to the initial year following aggregation shall be that portion of the total value of the pension trust fund which bears the same relationship that the value of the participation of the pension plan, as of the close of the preceding year plus the contributions received by the pension trust fund with respect to that pension plan during the year and reduced by the amount of retirement annuities and benefits paid from the pension trust fund for annuitants and benefit recipients of that pension plan during the year, bears to the total value of all participation in the pension trust fund as of the close of the preceding year plus the total contributions received by the pension trust fund during the year and reduced by the total amount

of retirement annuities and benefits paid for all annuitants and benefit recipients during the year.

(2) Legal title to assets in the aggregated pension trust fund shall be in the municipality as trustee, or its nominees as trustees, for any person having a beneficial interest in a particular pension plan which is associated with the pension trust fund.

(3) The assets of the aggregated pension trust fund shall be invested in investment securities which are authorized investments pursuant to any applicable law for any of the associated pension plans.

(4) Investment earnings shall be allocated to each associated pension plan in proportion to the most recently determined participation value.

(5) Valuation of assets shall be pursuant to the provisions of section 202(e)(1) [1] and any applicable rules and regulations issued by the commission.

(6) The aggregated pension trust fund shall be managed by a board of trustees. The board of trustees shall include at least one representative of the active membership of each pension plan included in the aggregated pension trust fund, who shall be elected by the active membership of the applicable pension plan. The remaining members of the board of trustees shall be drawn from the managing boards or entities of the associated pension plans.

(c) Total member contribution.—

(1) The municipality may specify total member contributions to the pension plan. The member contributions shall be specified as a percentage of covered salary.

(2) For a defined benefit plan in existence on the effective date of this subsection, the total member contribution shall not exceed 50% of the normal cost of the pension plan, expressed as a percentage of covered payroll, as reported in the most recent actuarial valuation report of the pension plan or the applicable maximum percentage rate of covered salary specified in paragraph (4), whichever is less.

(3) For a defined benefit plan which is improved subsequent to the effective date of this subsection and which benefit plan improvement causes an increase in the normal cost of the benefit plan of an amount equal to or greater than 1% of covered payroll as reported in the most recent actuarial valuation report of the improved pension plan, the member contribution shall also be increased. The increased total member contribution shall not be less than 30% of the normal cost or more than the lesser of 50% of the normal cost or the applicable maximum percentage rate of covered salary specified in paragraph (4). The normal cost for use in establishing the increased total member contribution shall be the normal cost of the improved benefit plan, expressed as a percentage of covered payroll, as reported in the most recent actuarial valuation report of the improved pension plan.

(4) The maximum percentage of covered salary total contributions shall be equal to the greater of the total employee contribution rate to the Federal old age, survivors, disability and health insurance program pursuant to the applicable Federal law in effect on January 1, 1984 applied to total covered salary or the employee contribution then in effect or subsequently negotiated in conjunction with a benefit increase.

(5) If any increase in member contributions equal to or greater than 1% of covered salary is required pursuant to the operation of this subsection, the increase shall be implemented over a period of four years through an annual increase equal to one fourth of the total required increase, which successive increases shall be effective on the first day of the first pay period occurring on or after January 1 on each of the succeeding four years.

(6) The establishment of total member contributions pursuant to this subsection shall be within the scope of collective bargaining pursuant to the applicable law with representatives of the collective bargaining unit for the affected type of municipal employee, if any.

(d) Deviation from municipal contribution limitations.—The municipality may exceed any limitations on municipal contributions to municipal pension plans otherwise applicable to the municipality.

(e) Establishment of a revised benefit plan for newly hired municipal employees.—The municipality may establish a revised benefit plan of the pension plan applicable to any employee first hired on or after the effective date of the instrument establishing the revised benefit plan. At the option of the municipality, the revised benefit plan may be extended to include an employee first hired prior to the effective date of the instrument establishing the revised benefit who elects the coverage. Member contributions with respect to the revised benefit plan of the pension plan shall at a minimum be equal to or exceed 30% and at a maximum not to exceed 50%, of the normal cost of the pension plan, expressed as a percentage of covered payroll, as reported in the most recent actuarial valuation report of the pension plan. A revised benefit plan for newly hired municipal employees shall be developed with consultation with representatives of the collective bargaining unit applicable to the affected type of municipal employee, if any, and shall be within the scope of collective bargaining pursuant to the applicable law subsequent to the establishment of the revised benefit plan.

(f) **Special municipal taxing authority.**—If the tax rates set by the municipality on earned income or on real property are at the maximum provided by applicable law, the municipality may increase its tax on either earned income or real property above those maximum rates. The proceeds of this special municipal tax increase shall be used solely to defray the additional costs required to be paid pursuant to this act which are directly related to the pension plans of the municipality. The municipality utilizing this special municipal taxing authority shall not reduce the level of municipal contributions to the pension plans prior to the implementation of the special municipal taxing authority. The average level of municipal contributions to the pension plans from all revenue sources for the three years immediately prior to the implementation of the special municipal taxing authority shall be expressed as a percentage of the average covered payroll for that same three-year period: Provided, however, That any supplemental contributions made to the plans pursuant to any pension recovery legislation enacted by the municipalities shall be excluded for purposes of determining the level of municipal contribution to the pension plans prior to the implementation of the special municipal taxing authority. In each year subsequent to the implementation of the special municipal taxing authority, the municipal contributions to the pension plan from all revenue sources existing prior to the implementation of the special existing municipal taxing authority, reduced by any supplemental pension recovery contributions, shall equal or exceed this average percentage of the current covered payroll. A municipality utilizing the provisions of section 404 [2] may levy or continue to levy the special municipal tax increase under this subsection provided that the municipality does not reduce the level of municipal contributions to the pension plans prior to the implementation of the special municipal taxing authority. In executing the procedure prescribed in this subsection to determine the level of municipal contributions, the debt service payments for bonds or notes issued under section 404 shall be considered municipal contributions.

(g) **Delayed implementation of funding standard over ten years.**—The municipality may delay full implementation of the actuarial funding standard specified in section 302 or 303,[3] whichever is applicable, over a period not to exceed ten years in duration, and may calculate that actuarial funding standard on the basis of a 30-year amortization period for the increment of unfunded actuarial accrued liability in existence as of the beginning of the plan year occurring in calendar year 1985. During the delayed implementation period, the municipality shall make a municipal contribution to each municipal pension plan of an amount equal to not less than the municipal contribution to the municipal pension plan made in the immediate prior year and the following percentage of the difference between that amount and the full minimum municipal obligation with respect to the pension plan pursuant to section 302 or 303, whichever is applicable:

Year	Percentage of Difference
1985	10%
1986	20%
1987	30%
1988	40%
1989	50%
1990	60%
1991	70%
1992	80%
1993	90%
1994 and thereafter	100%

The municipality may calculate the annual amortization contribution on the basis of a level percentage of future increasing covered payroll amortization contribution rather than on the basis of the level annual dollar amortization contribution specified in section 202.

(h) **Delayed implementation of funding standard over 15 years; 40-year amortization period.**—The municipality may delay full implementation of the actuarial funding standard specified in section 302 or 303, whichever is applicable, over a period not to exceed 15 years in duration and may calculate that actuarial funding standard on the basis of a 40-year amortization period for the increment of unfunded actuarial accrued liability in existence as of the beginning of the plan year occurring in calendar year 1985. During the delayed implementation period, the municipality shall make a municipal contribution to each municipal pension plan of an amount equal to not less than the municipal contribution to the municipal pension plan made in the immediate prior year and the following percentage of the difference between that amount and the full minimum municipal obligation with respect to the pension plan pursuant to section 302 or 303, whichever is applicable, calculated using the applicable 40-year amortization period:

Year	Percentage of Difference
1985	6.7%
1986	13.4%
1987	20.1%
1988	26.8%
1989	33.5%
1990	40.2%
1991	46.9%
1992	53.6%
1993	60.3%

Year	Percentage of Difference
1994	67.0%
1995	73.7%
1996	80.4%
1997	87.1%
1998	93.8%
1999	100.0%

The municipality may calculate the annual amortization contribution on the basis of a level percentage of future increasing covered payroll amortization contribution rather than on the basis of the level annual dollar amortization contribution specified in section 202.

(i) **Plan for administrative improvement.**—The municipality shall prepare and submit to the commission a comprehensive plan for administrative improvements in the pension plans, including, but not limited to, an improvement in investment performance, an increase in the liquidity of invested assets, an improved projection of future cash flow requirements, a reduction in any time delays for the deposit of member deductions and municipal contributions in the funding mechanism for the pension plan or an improvement in the collection of any other accounts receivable. Upon approval of the commission, the municipality shall implement the plan for administrative improvements.

(j) **Supplemental State assistance.**—If every pension plan of the municipality which is a defined benefit plan and which is self-insured in whole or in part has filed an actuarial valuation report utilizing the standardized actuarial cost method and economic actuarial assumptions within the range of actuarial assumptions specified in section 202(b) and if the municipality has implemented the aggregation of trust funds pursuant to subsection (b), the municipality may receive supplemental State assistance from the Supplemental State Assistance Fund established pursuant to section 608.[4] The amount of the supplemental State assistance to which the municipality is entitled shall be determined annually based on the determination scoring which the municipality received from the commission pursuant to section 503,[5] as follows:

(1) The determination score of the municipality shall be reduced by an amount equal to 25% of the maximum possible determination score.

(2) The result calculated pursuant to paragraph (1) shall be expressed as a percentage of the maximum possible determination score.

(3) The percentage calculated pursuant to paragraph (2) shall be applied to the dollar amount of difference between the amount of the municipal contribution to all municipal pension plans in aggregate and the full minimum municipal obligation with respect to the pension plan pursuant to section 302 or 303, whichever is applicable, to determine the amount of supplemental State assistance for the municipality. For the purposes of this paragraph, the municipal contribution of a municipality that has issued bonds or notes to fund an unfunded actuarial accrued liability under the act of July 12, 1972 (P.L. 781, No. 185),[6] known as the Local Government Unit Debt Act, or under other laws applicable to the municipality, shall include debt service on the bonds or notes, or both, issued to fund an unfunded actuarial accrued liability.

In the event that the total amount of supplemental State assistance determined as payable to all municipalities entitled to receive supplemental State assistance exceeds the maximum appropriation provided for in section 608(b), the amount of supplemental State assistance which shall be payable to each municipality shall be proportionately reduced. The supplemental State assistance shall be distributed annually on the first business day occurring in December.

(k) **Emergency loan procedures.**—The municipality may receive a loan from the Supplemental State Assistance Fund in any year during the existence of the fund in an amount certified by the commission. The loan amount shall be sufficient to eliminate the possibility of imminent default during the next 12 consecutive calendar months in the payment of retirement and other benefits by one or more of the pension plans maintained by the municipality. Terms for the repayment of any loan shall be established by agreement between the municipality and the commission prior to the loan.

1984, Dec. 18, P.L. 1005, No. 205, § 607. Amended 1986, Feb. 14, P.L. 23, No. 9, § 1, imd. effective; 1996, Dec. 10, P.L. 934, No. 150, § 4, imd. effective.

[1] 53 P.S. § 895.202(e)(1).
[2] 53 P.S. § 895.404.
[3] 53 P.S. § 895.302 or 53 P.S. § 895.303.
[4] 53 P.S. § 895.608.
[5] 53 P.S. § 895.503.
[6] 53 P.S. § 6780–1 et seq. (repealed; see, now, 53 Pa.C.S.A. § 8001 et seq.).

Historical and Statutory Notes

Sections 2 and 3 of Act 1986, Feb. 14, P.L. 23, No. 9, provide that the amendment to this section shall take effect immediately and shall be retroactive to Sept. 30, 1985.

The 1996 amendment, in subsec. (f), added the last sentence; and, in subsec. (j)(3), added the last sentence.

Library References

Municipal Corporations ⇐220(9).
WESTLAW Topic No. 268.
C.J.S. Municipal Corporations § 727.

City of Allentown

2011 Organizational Chart